SAPOA
South African Property Owners Association

RESEARCH

RETAIL TRENDS REPORT

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Key Research Findings

- For the year ending December 2014, the shopping centres in the IPD Retail sample recorded a year-on-year increase of 6.5% in annualised trading density (sales per square meter). In real terms (inflation-adjusted) this translates into a growth of 1.1% y/y.

- Retailer's cost of occupancy, measured as gross rental as a % of sales, was largely unchanged over the past quarter. However, it is currently 100bps higher than at the height of the recession.

- As at December, vacancy levels remain below 4% in centres above 25,000sqm - however, smaller centres have seen vacancy rates increase significantly over the past 6-12 months. Centres smaller than 25,000sqm has seen vacancy rates double since mid-2013 with Neighborhood centres being particularly hard hit.

- Gross rentals continue to grow faster than sales which have seen retailers' cost of occupancy increase. Cost of occupancy is just off the highest level in the 10 year history of the series and is almost exclusively driven by higher administered costs.

- The average footcount per square meter recorded for December in Regional & Super Regional centres was 1.6% up from a year. For centres above 50,000sqm, the average spend per head is currently R178 – up 7% from a year ago.

- There continues to be a divergence in the performance of the various merchandise categories. Categories that have outperformed include mostly retailers of non-durable and semi-durable goods while categories that have lagged include retailers selling durable goods and discretionary items

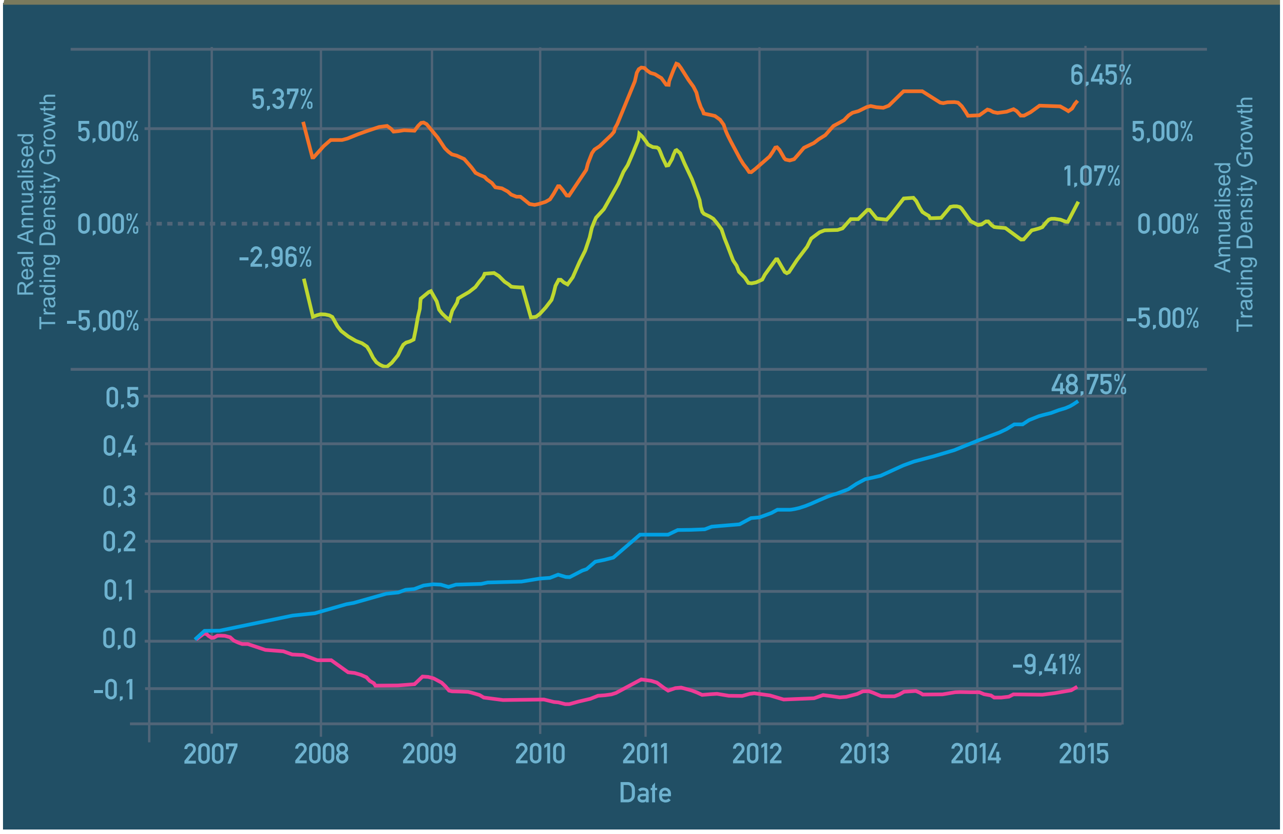
- The past 3 years have seen significant shifts in shopping centre composition as the macroeconomic landscape continues to change. Landlords have had to balance the growth ambitions of national tenants within their centres' overall tenant mix while remaining relevant within their catchment area in an increasingly competitive environment.

Sales Performance

For the year ending December 2014, the shopping centres in the IPD Retail sample recorded a year-on-year increase of 6.5% in annualised trading density (sales per square meter). In real terms (inflation-adjusted) this translates into a year on year growth of 1.1%.

While short term trading performance is an important indicator it is useful to look at a slightly longer trend given the events that have unfolded since the top of the cycle in 2006/'07. Viewing trading density in real terms reveal that the average retailer is still selling 10% less than they did in 2007 – although nominal sales per square meter is 48% higher.

GROSS RENTAL GROWTH OVERTOOK TRADING DENSITY GROWTH IN 2008
2004=100



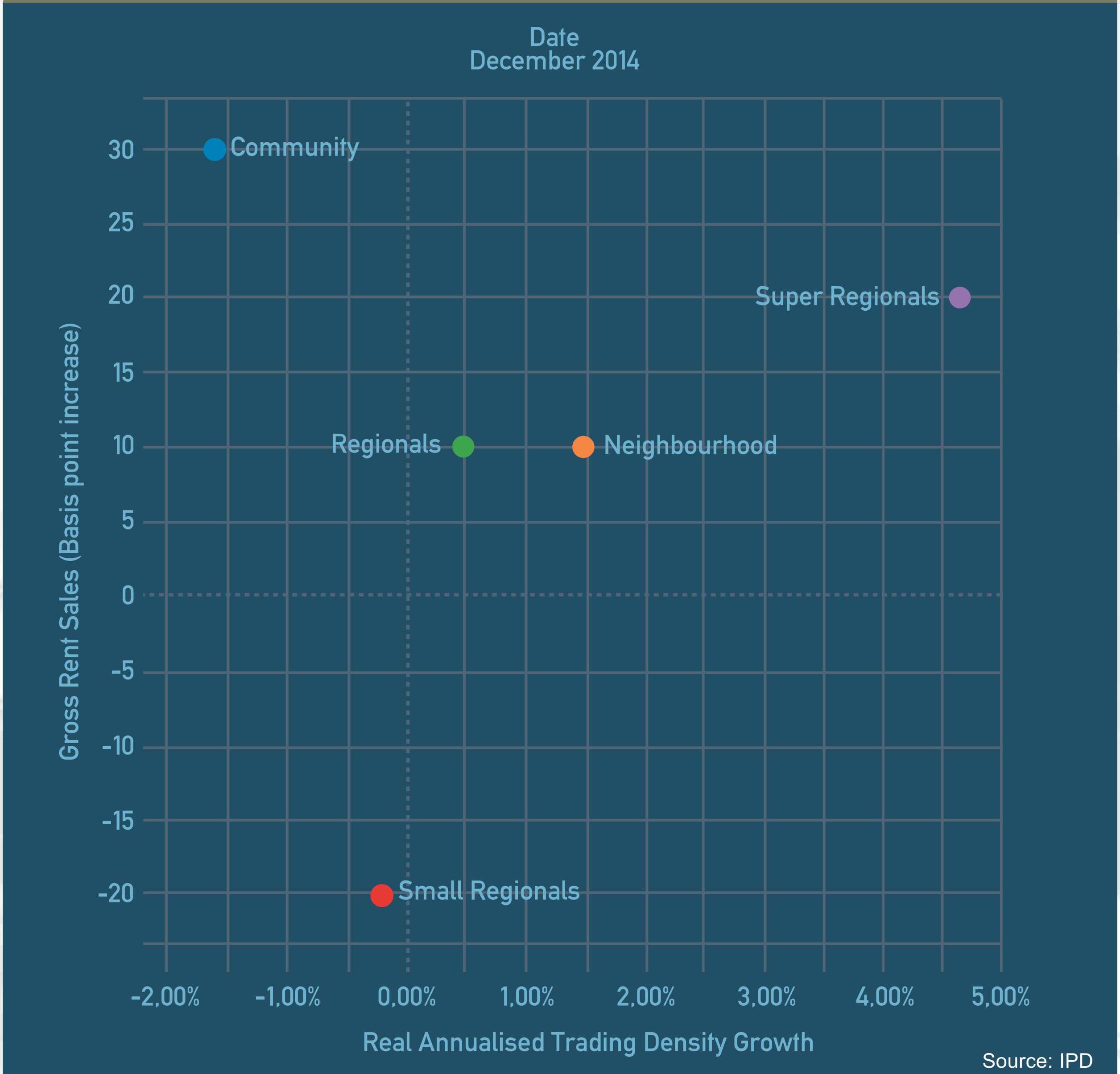
Source: IPD

Super Regional centres are continuing to outperform other segments and growing at a faster rate– suggesting that that large centres are gaining market share in a market where consumers are possibly lumping together purchases in fewer, less frequent shopping trips.

Larger shopping centres have outperformed over the past 10 years -aided by nodal dominance, a larger variety of categories & tenants and a larger boost from seasonal trade. Regional and Small Regional shopping centres, in particular, have experienced a sharp slowdown in growth since mid-2013. A less varied tenant mix across fewer merchandise categories relative to Super Regional centres could be a factor - thus offering consumers less scope for comparative shopping in an environment where disposable incomes are under pressure.

Another potential reason could be that centres of this size are often not nodally dominant in an urban market – which could lead to a loss of market share in the current competitive environment. Community centres recorded negative real trading density growth for the year ending December after holding up surprisingly well during the 9 months to September.

SUPER REGIONAL CENTRES GAINING MARKET SHARE BUT COST OF OCCUPATION UP



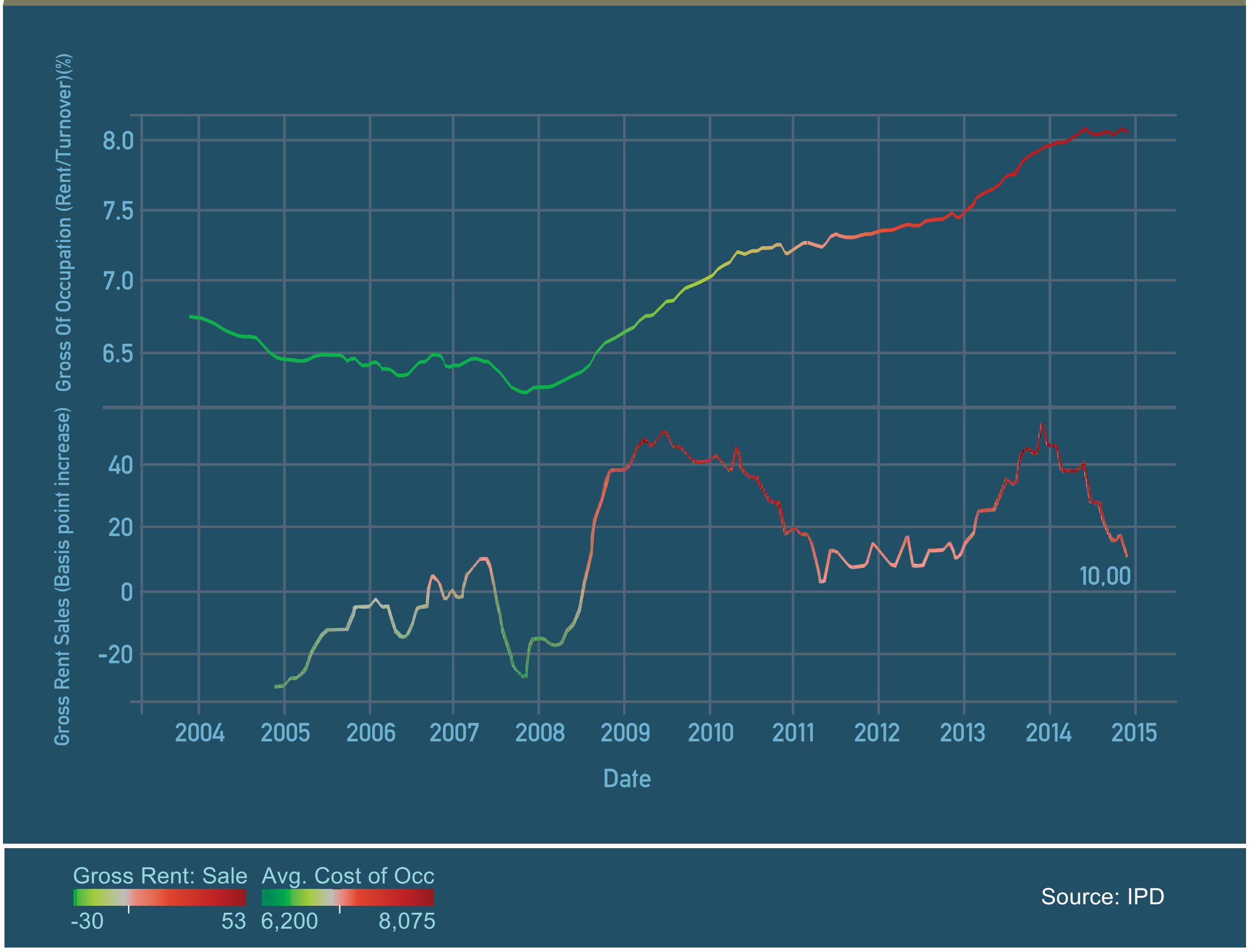
Source: IPD

Retailer Cost of Occupancy

Retailer's cost of occupancy, measured as gross rental as a % of sales, was largely unchanged over the past quarter. This was even the case in Super Regional centres where a nominal trading density growth of 10%+ was offset by a 13% growth in gross rentals. The growth in gross rental is being driven by tenant recoveries as opposed to a growth in base rental.

To emphasise the impact of rising administered prices it should be noted that cost of occupancy is currently 100bps higher than at the height of the recession when consumer spending was arguably under more pressure than is currently the case.

COST OF OCCUPATION HIGH & INCREASING - BUT AT A SLOWER RATE
Gross Rent to Sales ratio & year-on-year basis point increase



Source: IPD

The impact of rising tenant operating costs have been most pronounced in Community & Neighborhood centres where gross rent to sales ratios in these segments are currently significantly higher than 2009 levels. Super Regional Centres is the only segment which currently has a lower gross rent to sales ratio compared to the highs of 2010/11, underlining its defensiveness in the current consumer environment.

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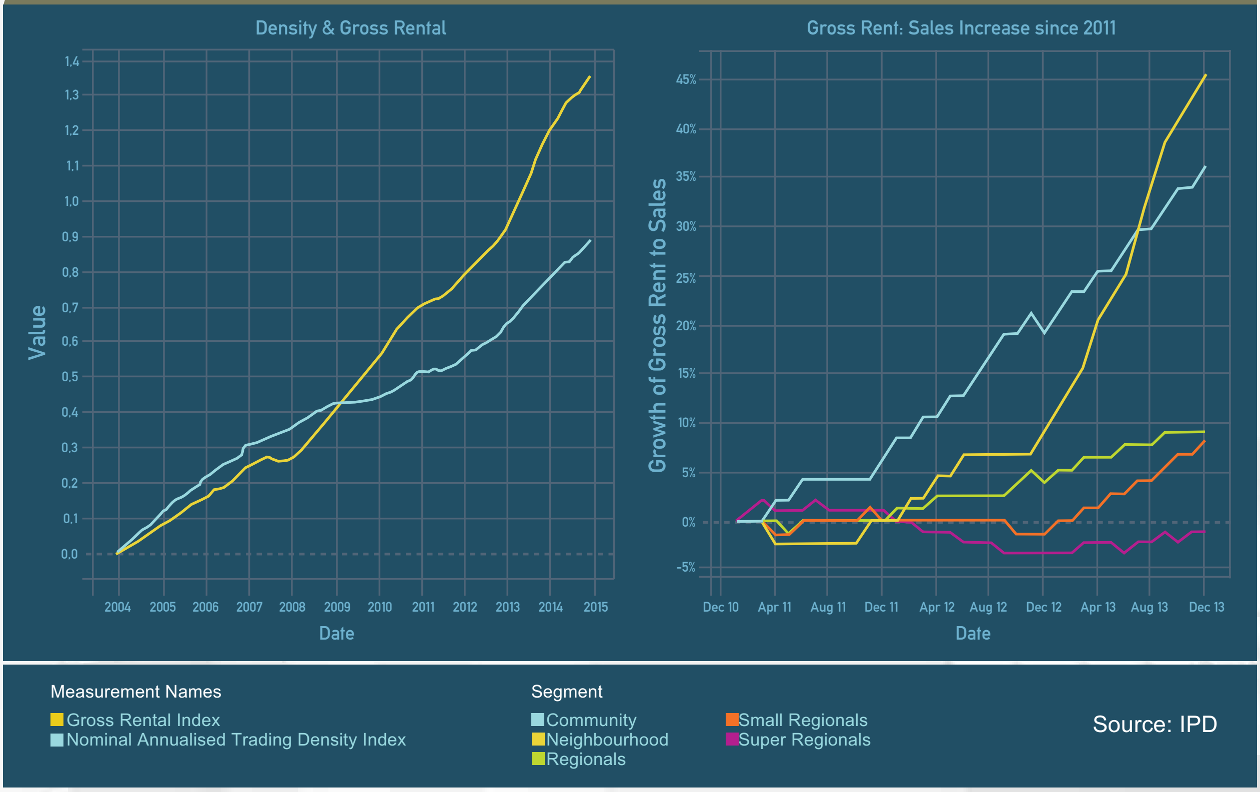
2004=100



Source: IPD

Retail Vacancy Rates

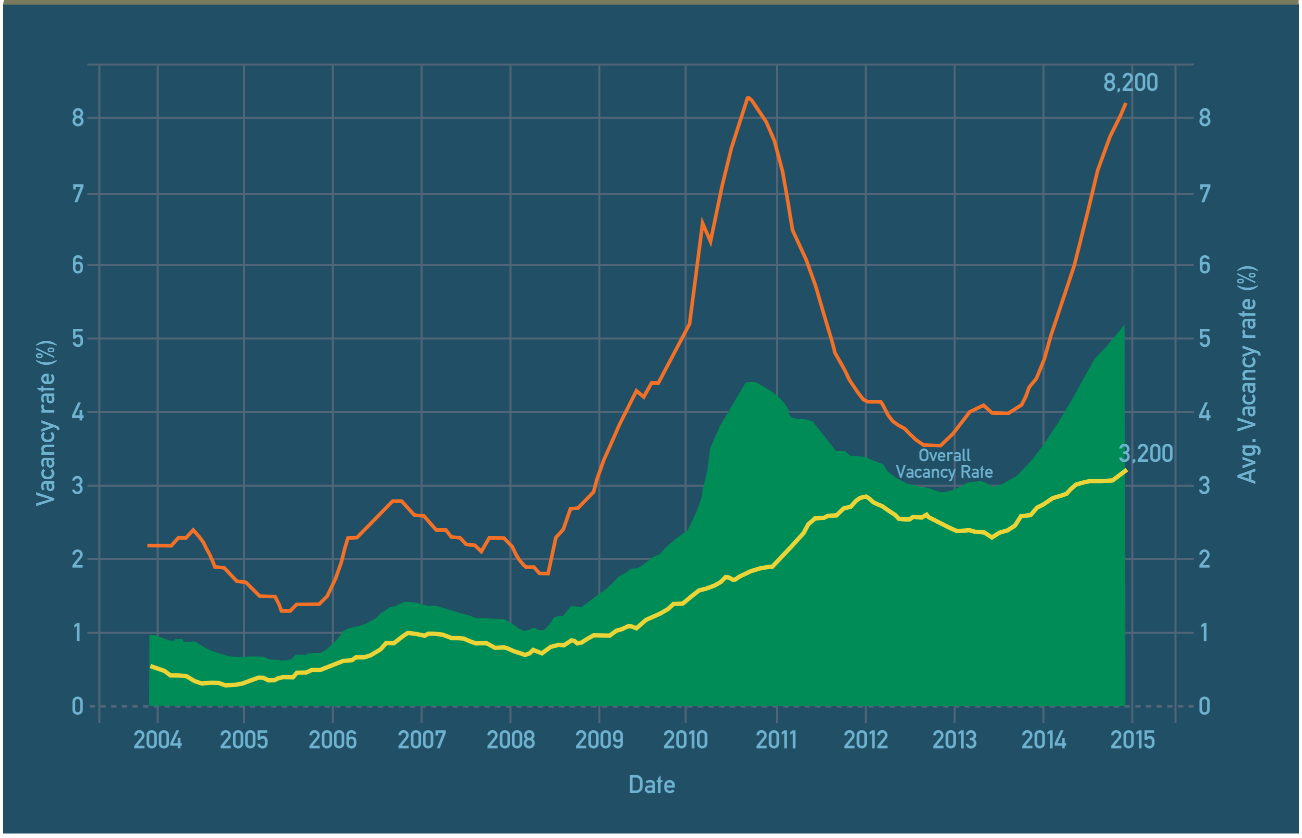
As at December, vacancy levels remain below 4% in centres above 25,000sqm - however, smaller centres have seen vacancy rates rise significantly over the past 6 months. Centres smaller than 25,000sqm has seen vacancy rates double since mid-2013 with Neighborhood centres (those between 5,000 & 12,000sqm) being particularly hard hit. The vacancy rate in centres of this size ended the current quarter at 10.2% after trending as low as 3.2% in 2012. Community centre occupancy rates have also come under pressure with vacancies increasing from 2.8% in 2013 to above 6% currently.

This highlights the importance of nodal dominance – especially during times of constrained consumer expenditure growth. The fact that larger centres tend to have a higher proportion of national retailers – who are able to absorb lower margins better than independent retailers - could be one of the reasons behind the relatively more stable vacancy rate of these centres.

Super Regional centres recorded an improved vacancy rate relative to the previous quarter with vacancy rates declining 10bps to end on 2.6%. Regional and small regional centre vacancy rates increased by 20 & 10bps respectively during the quarter. Small regional centre vacancies in particular are now well off its lows but nevertheless remain below the 4% level.

VACANCY RATE DRIVEN HIGHER BY CENTRES < 25,000sqm

VACANCY RATE (%) - 2004-2014



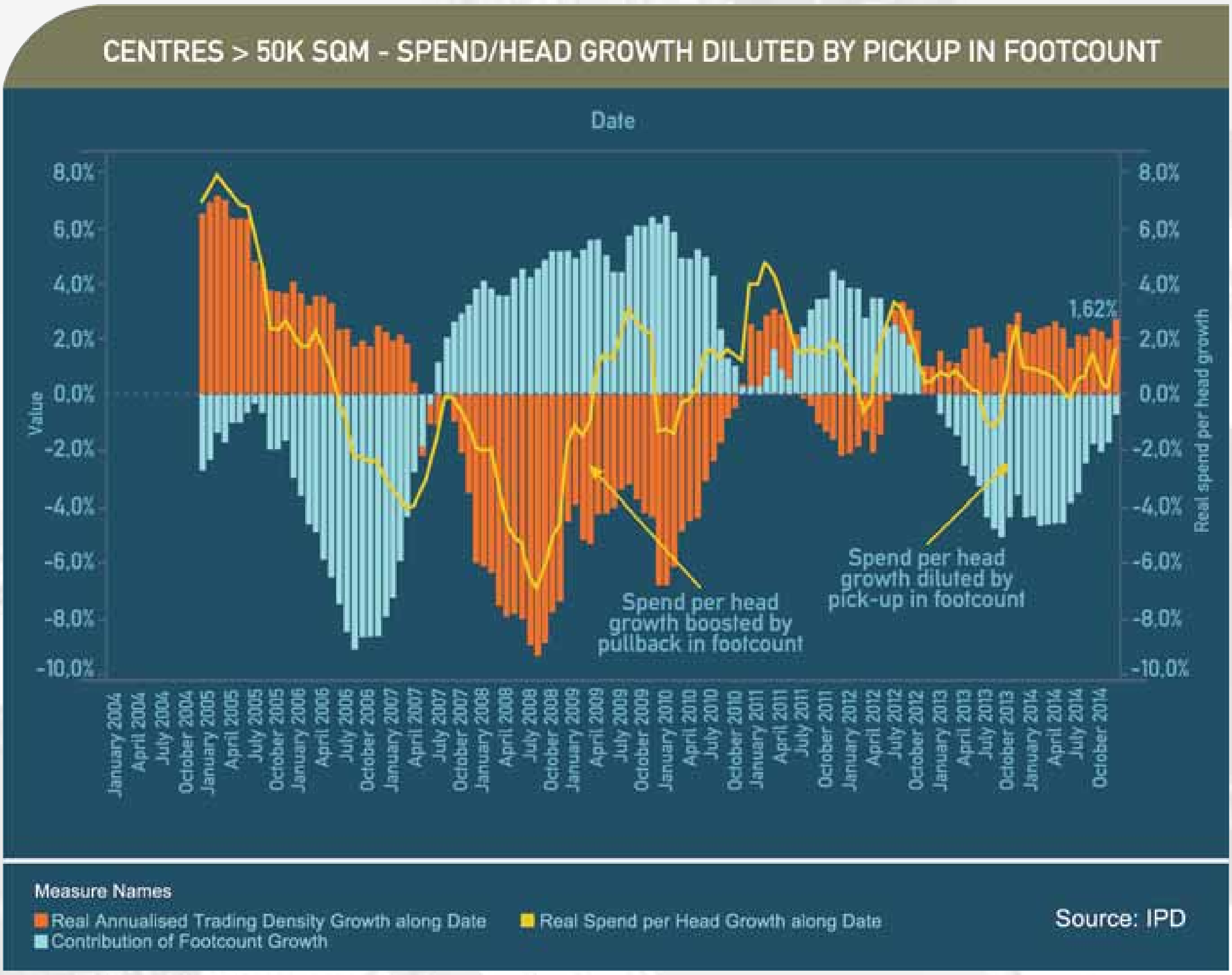
Segment (Group)
Centres < 25,000sqm
Centres < 25,000sqm

Source: IPD

Footcount & Spend Per Head

The average footcount per square meter recorded for December in Regional & Super Regional centres was 1.6% up from a year. In conjunction with a higher real trading density, this has resulted in a higher spend per head compared to a year before. For centres above 50,000sqm, the average spend per head is currently R178 – up 7% from a year ago.

At present, spend per head growth is actually being diluted by the recent upward trend in footcount. For the year ending December, real trading density growth exceeded the pickup in footcounts – the net result a 1.6% increase in real spend per head.

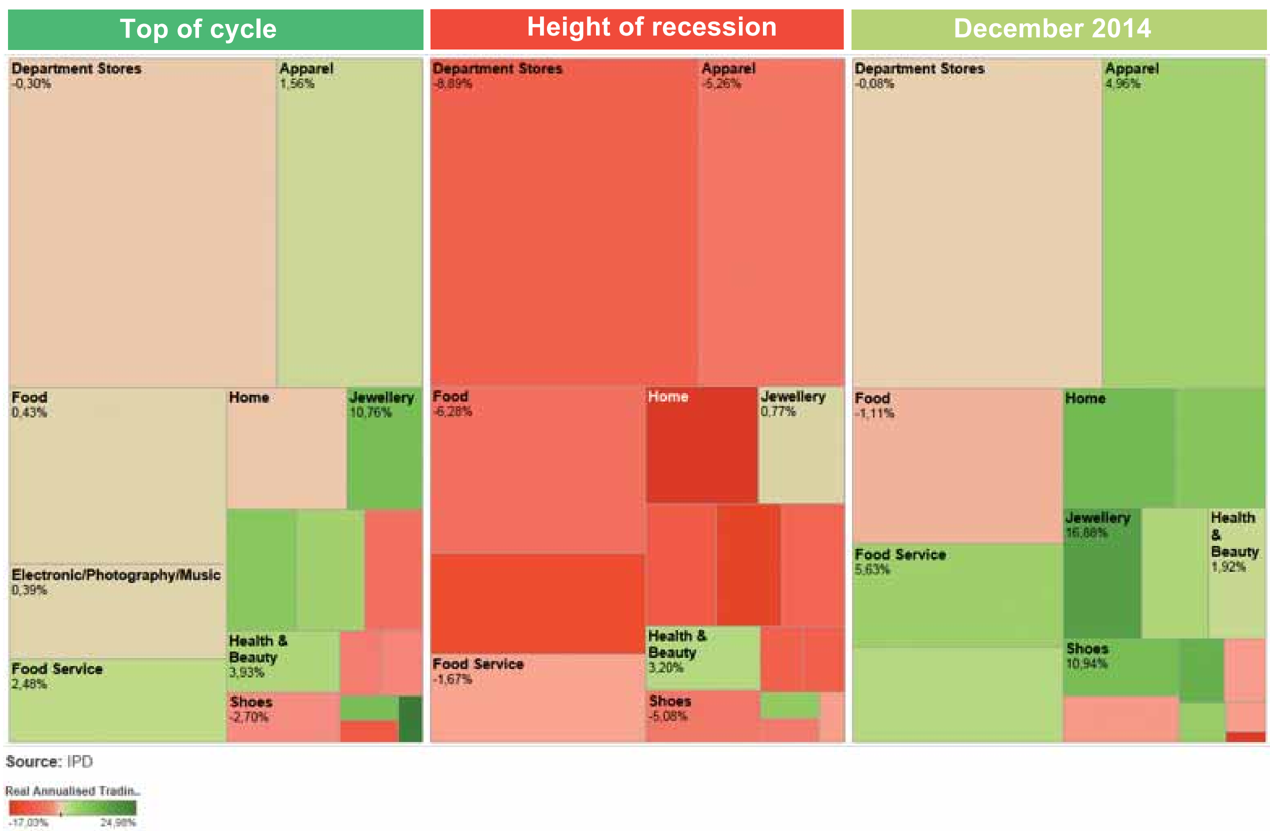


Merchandise Category Trends

There continues to be a divergence in the performance of the various merchandise categories. Categories that have outperformed include mostly retailers of non-durable and semi-durable goods while categories that have lagged include retailers selling durable goods and discretionary items such as home furnishings, travel stores, toy stores and department stores.

As at December, most of the major merchandise categories recorded positive real growth. Department stores and Supermarkets, the 2 largest categories in terms of overall sales reported flat sales growth in real terms. The fine jewelry category has been a strong performer recently and even more so if viewed since 2006 – bear in mind though that the dollar gold price has increased faster than inflation – in fact doubling during this period.

MOST CATEGORIES GROWING IN REAL TERMS, FOOD & DEPARTMENT STORES LAG

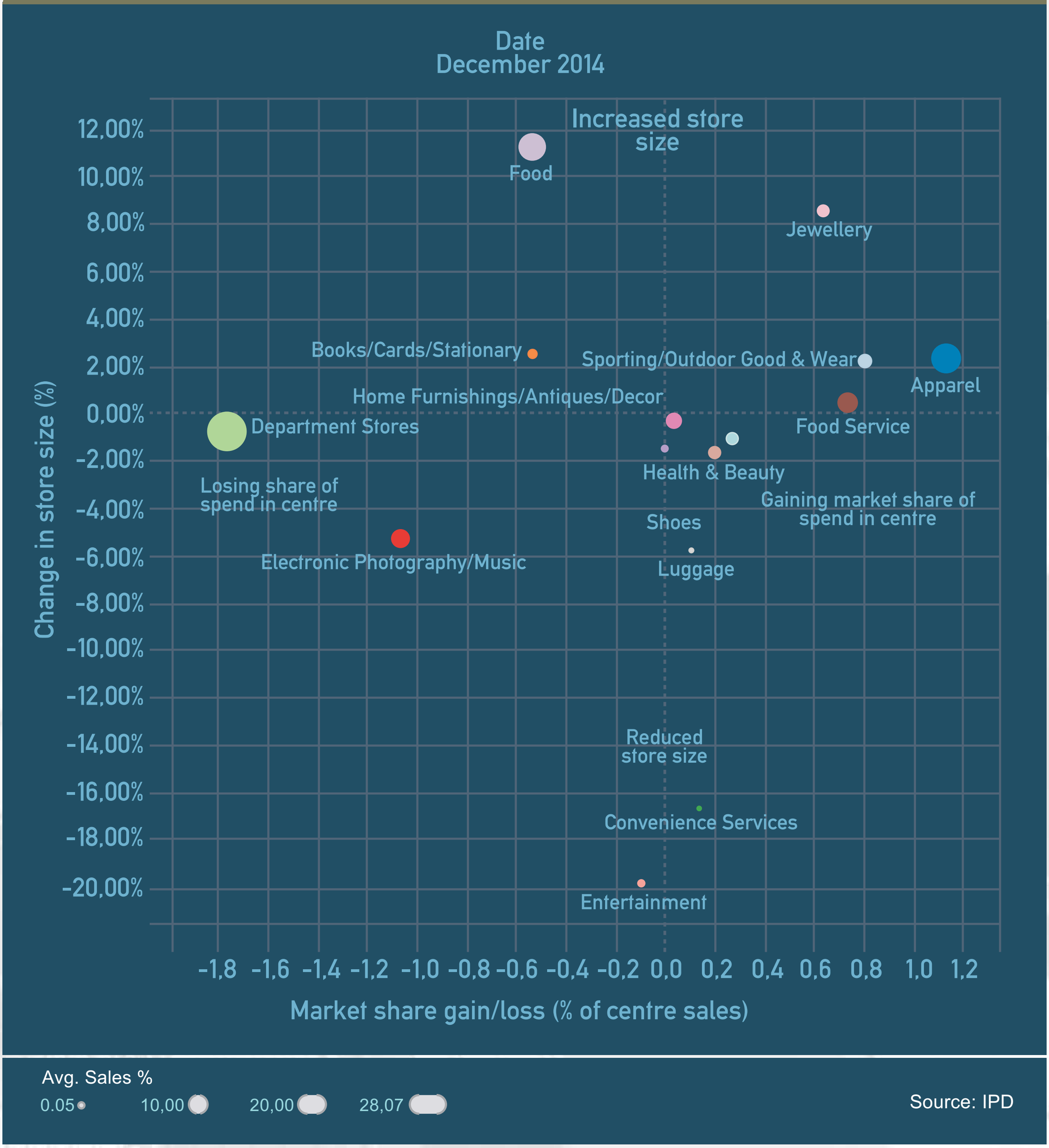


Source: IPD

The past 3 years have seen significant shifts in shopping centre composition as the macroeconomic landscape continues to change. Landlords have had to balance the growth ambitions of national tenants with their centres' overall tenant mix while remaining relevant within their catchment area in an increasingly competitive environment.

The merchandise categories that have managed to increase their share of centre spend the most during the past 3 years has been primarily driven by active tenant mix management. Categories like Apparel and Food Service has grown their share of spend by virtue of a larger average store size while the Health & Beauty category has grown its market share despite a smaller average store. This highlights the importance of landlords not only backing the winners but also keeping their tenant mix fresh by introducing new tenants and right sizing where need be.

LAST 3 YEARS - CATEGORY GAINS IN MARKET SHARE DRIVEN BY RIGHT SIZED STORES



Source: IPD

About the Sample

The IPD Retail sample consists of around 100 shopping centres across all geographies & centre types owned by listed real estate investment trusts, life & pension funds as well as private property funds.

The full quarterly results from 2003 onwards are available for 24 merchandise categories. To subscribe to this quarterly publication please contact **sa@ipd.com**

SHOPPING CENTRE TYPE DEFINITIONS

Total rentable area

Super regional shopping centre	> 100,000 m^2
Regional shopping centre	50,000 - 100,000 m^2
Small regional shopping centre	25,000 - 50,000 m^2
Community shopping centre	12,000 25,000 m^2
Neighborhood shopping centre	5,000 - 12,000 m^2

Report compiled by

IPD

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